



The Brazilian case study: illicit financial flows risk exposure on international trade transactions

Federal Revenue and Customs Services of Brazil (RFB)



Geneva
July 2019



i. Background: the global agenda and the Brazilian case study on IFFs



Research Group on Illicit Financial Flows via Mis-invoicing

diagnosis to confirm if these artificial and fraudulent offshore cases were isolated cases or if it was a common practice.

customs integrated actions to tackle illicit financial flows in international trade transactions.



■ Federal Police Report

- under-invoiced exports to fictitious companies located in tax havens.

■ RFB investigation (specific cases)

- under-valued export transactions to intermediary P.O. Box companies located in tax havens* likely have been used as a mechanism to **conceal the actual foreign importer and conceal trade profits in lower-tax jurisdictions.**

 RFB (Brazil)
July, 2018
Ad Hoc Working and Research Group on IFFs/TM GET-FFI

 RFB (Brazil)
December, 2018
GET-FFI
Study Report on IFFs/TM presented to the RFB Office

 WCO
July, 2018
Study Report on IFFs/TM presented to the G20


ii. IFFs: the Brazilian case study


Trade gap:

- The discrepancy or trade gap between the under-valued invoice declared in Brazil and the actual value declared in the U.S. is of 237,22%.

Crimes and Penalties:

- Fraud + tax evasion + financial crimes (false documents, fraudulent trade transactions, concealment of profits in tax haven, trade mis-invoicing)
- Collection of evaded taxes with a fine of 150%
- Customs fine of 100% over the customs value (concealment of actual foreign importer)
- Report to the Federal Prosecution Service

U.S.A. 

Brazil 

Cayman Islands 

offshore

offshore

offshore

iii. IFFs: components and channels

- **Tax-related illicit financial outflows channeled via trade mis-invoicing**

Flow (channel)	Manipulation	Illicit motivation
Exports	over-invoicing	(Re)patriate undeclared capital

Trade mis-invoicing: fraudulent mis-reporting of key information on an invoice (e.g. price, quantity of goods, nature or quality of goods, the actual buyer or seller, etc) for the purpose of facilitating illicit cross-border financial flows.

iv. IFFs: definitions and risk analysis approach



Background paper prepared by
Alex Cobham and Petr Janský

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

The central idea is that because illicit financial flows are, by definition, hidden, the likelihood of an illicit component increases with the degree of financial opacity in any given transaction. **The higher the degree of opacity of trade partner jurisdictions, the greater the risk a financial flow is illicit.**

Background paper prepared for the *First Intergovernmental Group of Experts on Financing for Development: Domestic Public Resources and International Development Cooperation*, 8-10 November 2017: Palais des Nations, Geneva.

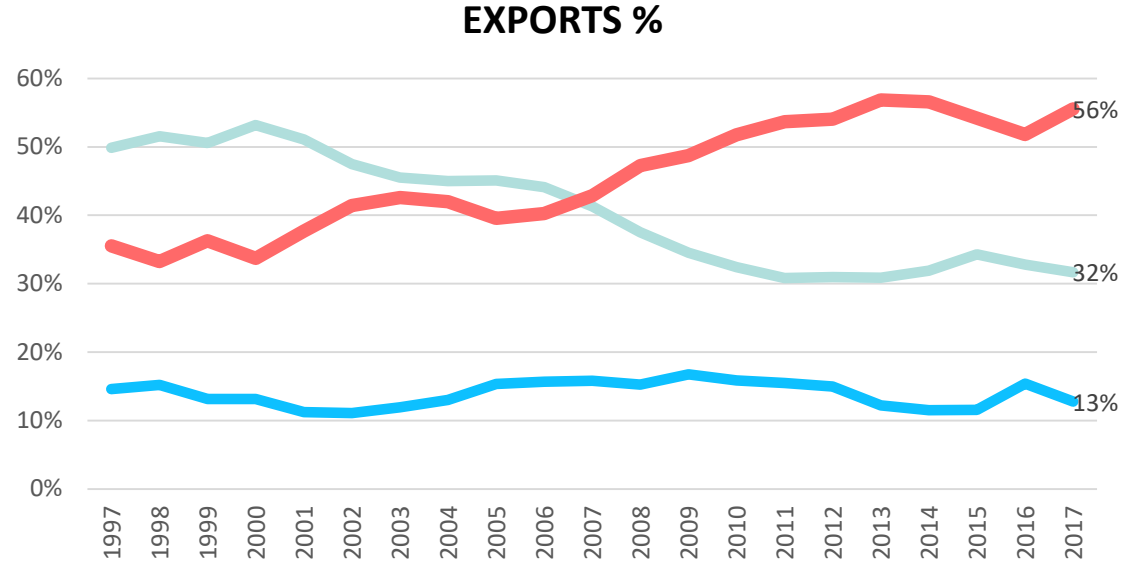
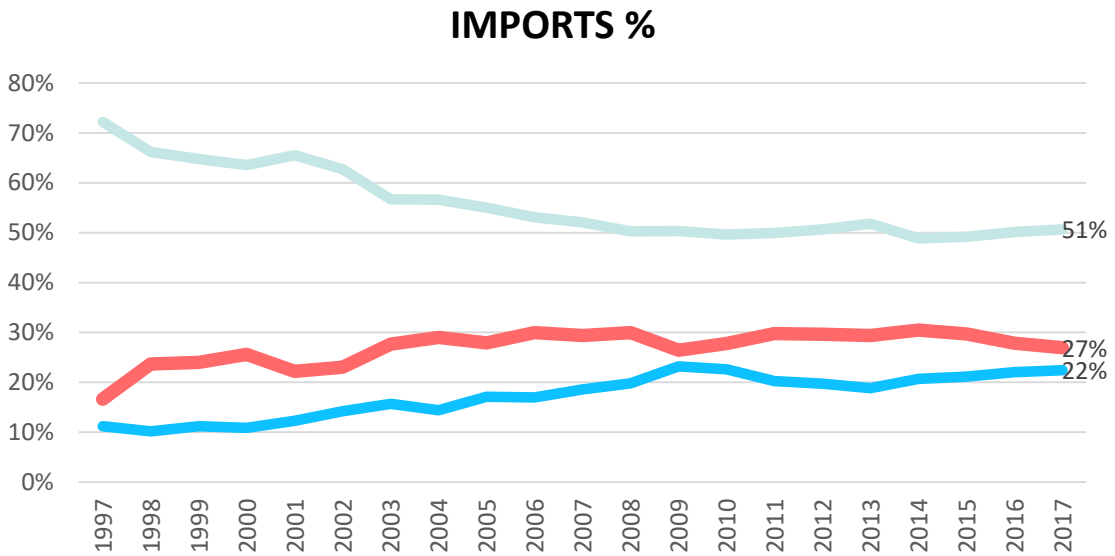
IFF = triangular transaction + financial opacity + favorable taxation rules

iv. IFFs: definitions and risk analysis approach

- **Categories of risk exposure to an IFF in trade transactions:**
 - **Low risk of exposure to an IFF**: direct exports or imports whose country of **acquisition/sale** is **not a tax haven** or privileged tax regime.
 - **Medium risk of exposure to an IFF**: triangular exports or imports whose country of **acquisition/sale** is **not a tax haven** or privileged tax regime.
 - **High risk of exposure to an IFF**: triangular or direct exports or imports whose country of **acquisition/sale** is **a tax haven** or privileged tax regime.

v. IFFs: data and risk exposure analysis (SISCOMEX)

Historical trend charts of IFFs risk exposure (trade database 1997-2017)

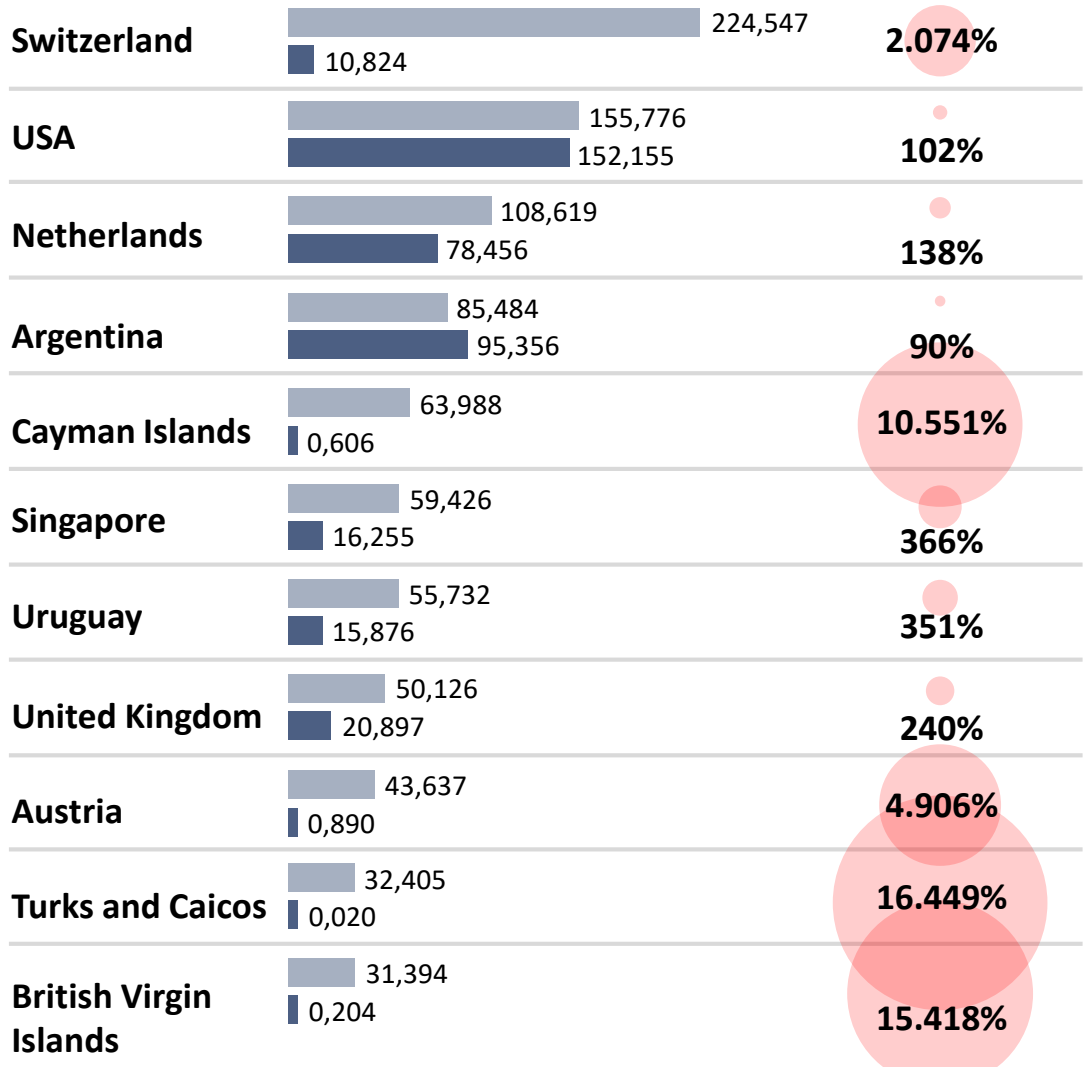


Historical trend charts of IFFs risk exposure on imports and exports. Year: 1997-2017. Source: Federal Revenue and Customs Services of Brazil.

- low-risk
- medium-risk
- high-risk

v. IFFs: data and risk exposure analysis (SISCOMEX)

Triangular export transactions (2012-2017)



- Triangular transactions with secrecy jurisdictions is the prevailing pattern observed on export transactions and is considered to be at **high risk exposure to an IFF via trade mis-invoicing.**
- These triangular structures may have been used as a **channel to transfer and conceal profits** in lower-tax jurisdictions and **reduce tax liabilities in Brazil** or may have been used to **shift proceeds of corruption out of Brazil.**

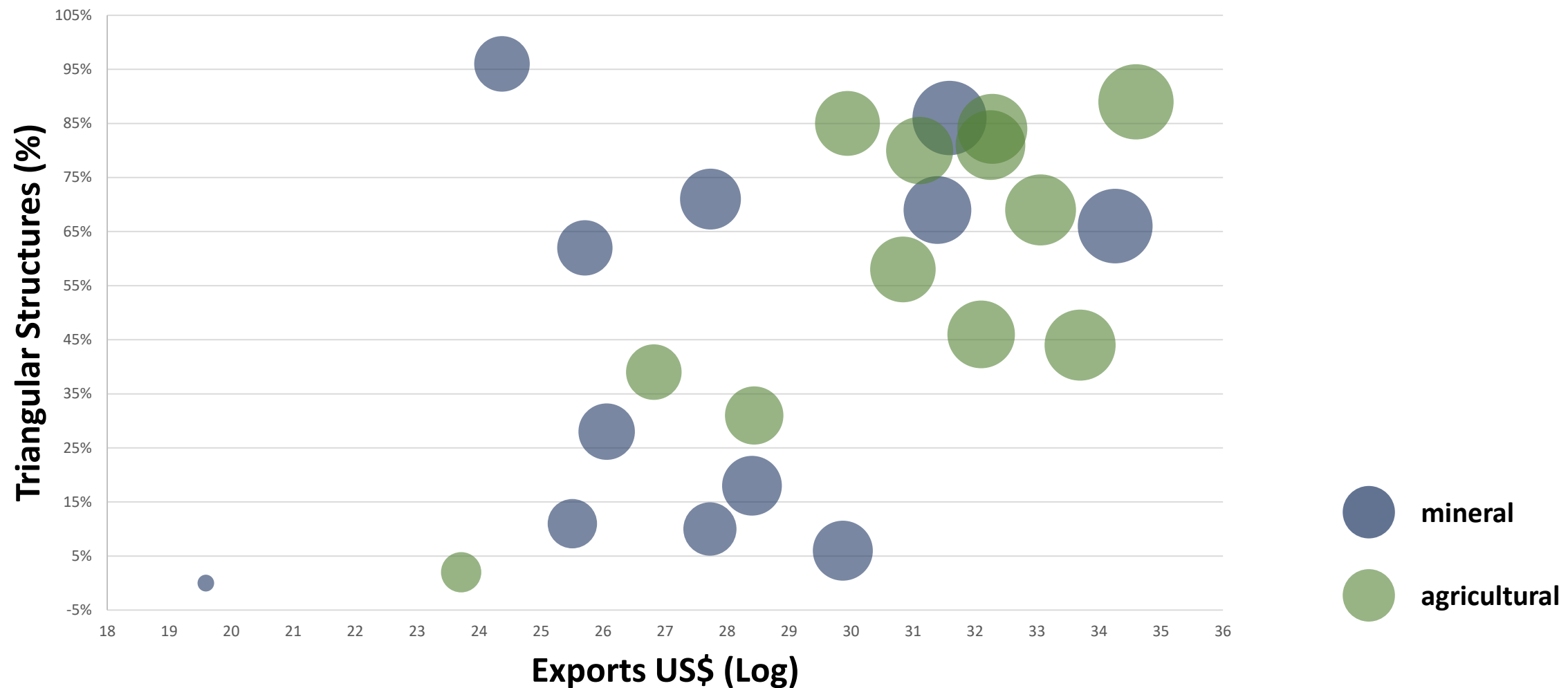
- Financial Flow /Goods Flow
- Financial Flow or country of acquisition (in billions of US dollars)
- Goods Flow or country of destination (in billions of US dollars)

Year: 2012-2017. Source: Federal Revenue and Customs Services of Brazil.



v. IFFs: data and risk exposure analysis (SISCOMEX)

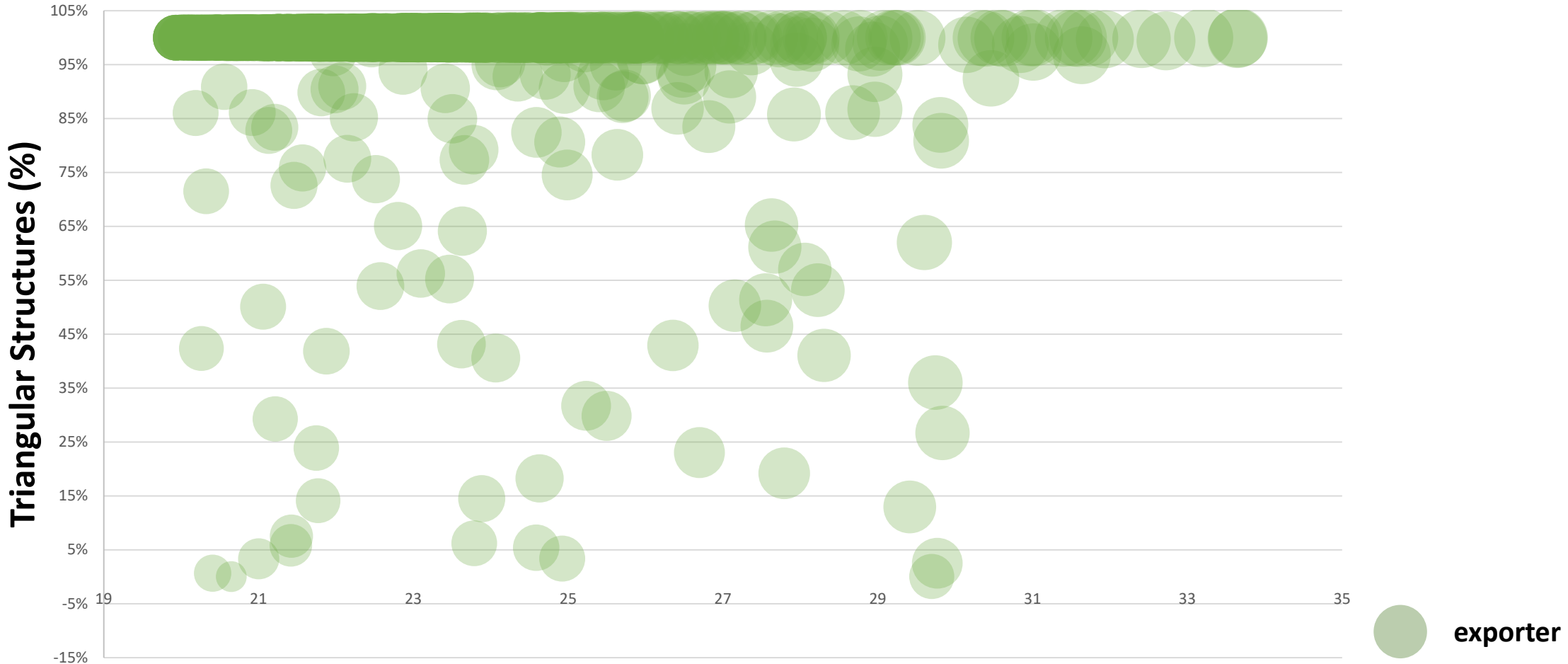
Export transactions of mineral and agricultural commodities (2017)



Bubble chart displaying the pattern of triangular transactions with tax havens or differential tax regimes on Brazilian mineral and agricultural commodity export transactions. Year: 2017. Source: Federal Revenue and Customs Services of Brazil.

v. IFFs: data and risk exposure analysis (SISCOMEX)

Export transactions of soy beans and derivatives (2017)

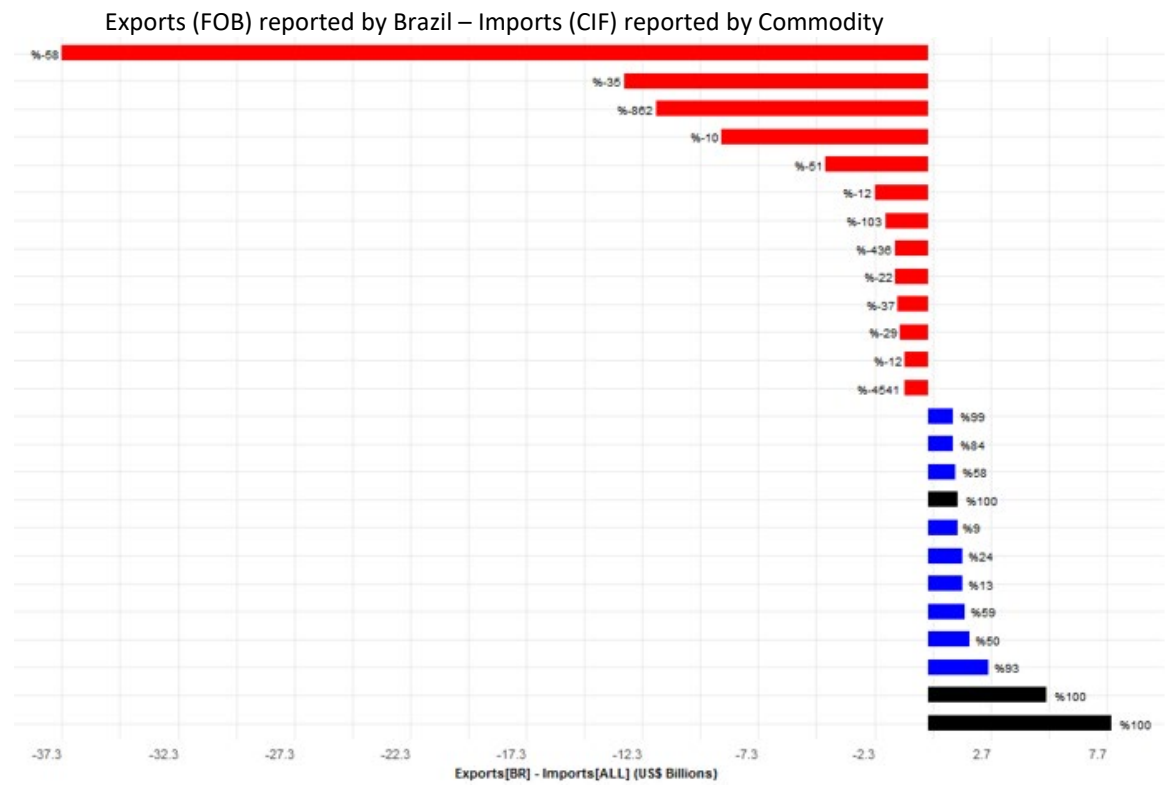


Bubble chart displaying the pattern of triangular transactions with tax havens or privileged tax regimes on Brazilian soybean and derivatives export transactions. Year: 2017. Source: Federal Revenue and Customs Services of Brazil.

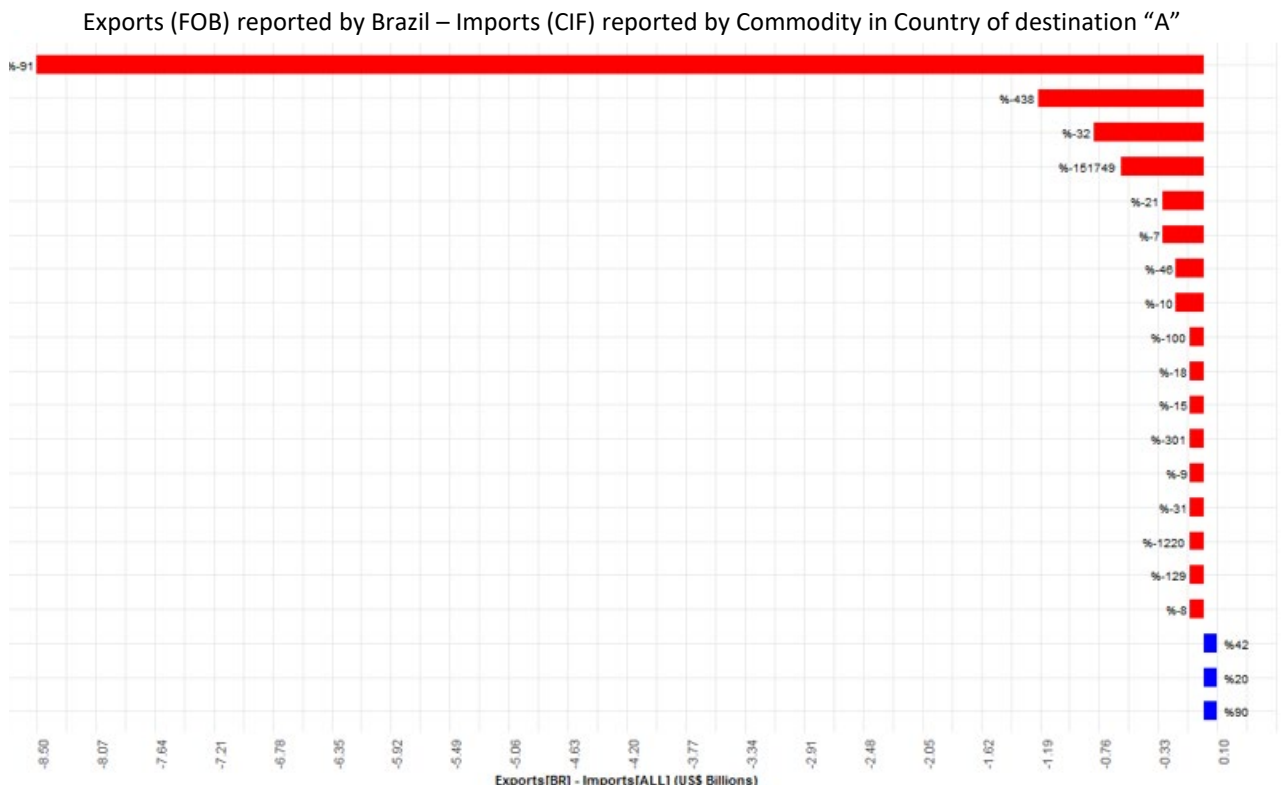


v. IFFs: data and risk exposure analysis (UN COMTRADE)

- Trade gaps by commodity and by country of destination on export transactions (aggregation at the 6-digit level of the HS Code)



Trade gap by commodity, at the 6-digit level of the HS Code. Year: 2013-2017.
 Source: UN COMTRADE and SISCOMEX Database, Federal Revenue and Customs Services of Brazil.



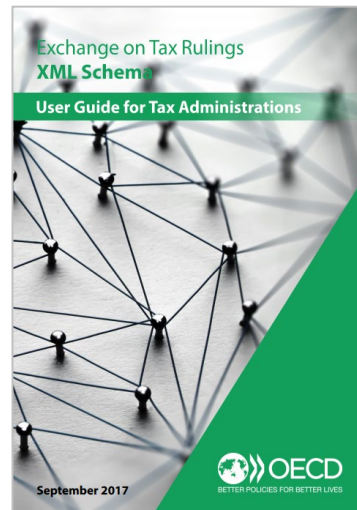
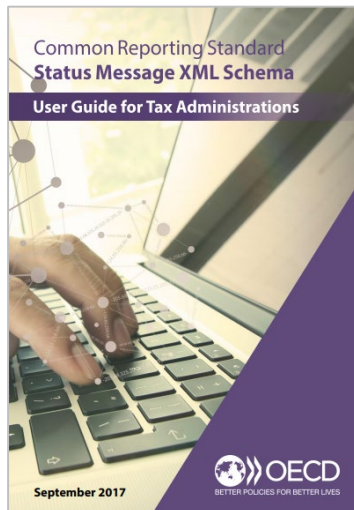
Trade gap by commodity and by country of destination, at the 6-digit level of the HS Code. Year: 2013-2017.
 Source: UN COMTRADE and SISCOMEX Database, Federal Revenue and Customs Services of Brazil.

- Trade gap = (Exports Brazil) – (Imports Country of destination)



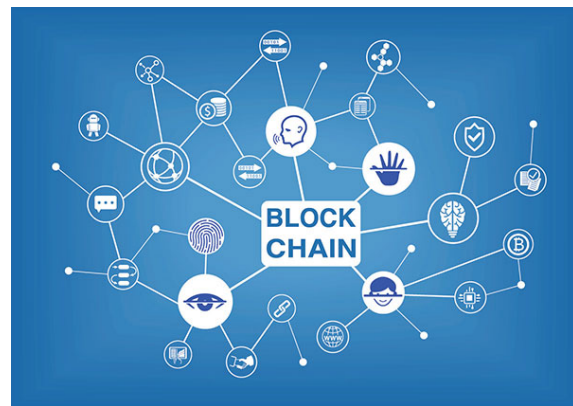
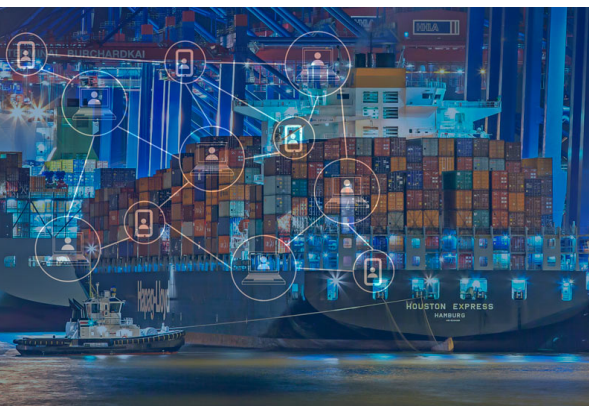
v. IFFs: data and risk exposure analysis (NEXT STEPS)

- Develop **risk indicators** and conduct exploratory data analysis and descriptive statistics using data from the **CbC Report**, **Common Reporting Standard (CRS)**, **Tax Rulings** and **Foreign Exchange** (Central Bank);
- Supervised (e.g. logistic regression, etc.) and unsupervised statistical techniques (e.g. clustering, etc.);
- Graphic analysis.
- Data mining and artificial intelligence algorithms (enhanced risk assessment).



vi. Automatic exchange of transaction-level trade data (NEXT STEPS)

- **Paradigm: Mercosul Treaty and INDIRA System.**
- **Real-time risk assessment** of IFFs via trade mis-invoicing and prevent the fraudulent manipulation of trade transactions.
- **Exchange information of trade data with trade partners** to identify anomalies and discrepancies that warrant further investigation.
- **b-Connect: prototype based on blockchain technology** to provide transparency of global trade logistics and global value chains.



Thank you for your attention!

Luciana.Barcarolo@rfb.gov.br

Lucas.Amaral@rfb.gov.br

